LEGISLATIVE SERVICES AGENCY

OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6661 | **NOTE PREPARED:** Jan 7, 2013
BILL NUMBER: HB 1116 | **BILL AMENDED:**

SUBJECT: Property taxes.

FIRST AUTHOR: Rep. Leonard | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL** **DEDICATED** **FEDERAL** | **IMPACT:** State & Local

Summary of Legislation: This bill makes numerous changes concerning the administration of property taxes.

The bill also repeals a statute requiring a public library that is governed by an appointed board and located in a county other than Marion County to obtain, from the appropriate county, city, or town fiscal body, the approval of its budget or an additional appropriation only if the budget is increased by more than the assessed value growth quotient. It provides that libraries are subject to the current law requiring other taxing units governed by appointed boards to have all budgets and additional appropriations approved by the appropriate county, city, or town fiscal body.

Effective Date: July 1, 2013.

Explanation of State Expenditures: *Reassessment Levy*: Under current law, counties must impose a property tax levy to fund the real property reassessment process. The DLGF must give notice to each county regarding the required levy for the reassessment fund each year. The DLGF may currently raise or lower the levy amount as the Department deems appropriate. Under this provision, the determination of the reassessment fund levy would be left to the county. The DLGF would have reduced administrative duties under this provision.

Local Budget Hearings: Under current law, the DLGF must hold a public hearing on each taxing unit's budget, levy, and tax rate. The hearings are held in the county in which the taxing unit is located. Under this provision, the DLGF would not be required to hold a budget hearing for a taxing unit unless at least one taxpayer requests that the hearing be held. Taxpayers may make their request on paper or electronically, and may send it through the county auditor or directly to the DLGF.

There are currently around 2,600 taxing units in the state. The DLGF would realize a savings of travel and publication expenses. There would also be a savings of employee hours that are currently devoted to hearings with no attendees. Actual savings would depend on the number of taxing units for which a hearing is not requested.

Explanation of State Revenues:

Explanation of Local Expenditures: *Circuit Breaker Reports*: This provision conforms to the reporting changes made in HEA 1072 (2012). Under current law, the county auditor must notify each taxing unit in the county of the amount of property tax collections lost to the tax caps. However, HEA 1072 (2012) shifted the responsibility to prepare the circuit breaker loss report from the county auditors to the DLGF. Under current law, the DLGF must post this report on its website.

Tax Sale Notices: The cost of mailing tax sale notices to mortgagees could increase or decrease under this provision. The number of mortgagees to be notified could increase, but the number of notices sent by certified mail could decrease.

Under current law, the county auditor is required to maintain a list of real property eligible for tax sale. At least 21 days before application for judgement is made, the county auditor must mail a copy of the tax sale notice containing the list by certified mail to any mortgagee who annually requests a copy by certified mail. This bill would instead require the county auditor to provide a copy of the notice to all mortgagees, either by personal service or by certified mail to the mortgagee's last known address.

Government Modernization: This provision could increase local expenditures by an indeterminable amount for the preparation of a fiscal impact statement in cases where reorganization committees choose, under current law, not to prepare a fiscal impact statement.

Under the current government modernization law, a reorganization committee must prepare a reorganization plan. The plan must include a statement regarding whether or not a fiscal impact analysis has been prepared and whether or not it is publicly available.

Under this provision, the committee would be required to prepare a fiscal impact analysis. The analysis would have to include (1) cost estimates for planned services, (2) anticipated net assessed value and funds affected by tax area, (3) financing methods for planned services, (4) estimates of maximum permissible levies, budgets, and tax rates, (5) the plan for reorganization and extension of services to areas being reorganized, and (6) the plan for providing or continuing services in areas not being reorganized.

Explanation of Local Revenues: *Library Budgets*: Based on the library's request and the actions of the reviewing body, a library's spending authority (budget plus any additional appropriations) and its property tax levy could be unaffected or could be reduced under this bill.

Under current law, except for libraries, taxing units whose governing bodies are appointed rather than elected must submit their proposed budgets and tax levies to the fiscal body of the city, town, or county. Library budgets and levies are subject to review only if the proposed budget increase exceeds the income based assessed value growth quotient (AVGQ) which is currently about 2.8%. Also, additional appropriations for libraries are currently subject to review only if the additional appropriation would result in a total budget increase that exceeds the AVGQ.

Under this provision, the budget and levy review for libraries would be the same as for other taxing units with appointed governing bodies. The reviewing body may reduce or modify, but not increase, the budget and levy. In addition, the bill would require all additional appropriations for libraries to be adopted by ordinance of the city, town, or county, regardless of the amount of the request.

Cumulative Funds: Under current law, cumulative funds are rate-controlled. Each fund has a maximum tax rate which is adjusted each year to eliminate the effects of a general reassessment or annual adjustment. This provision makes changes to the adjustment formula to better conform to the enactment of cyclical reassessments in SEA 19 (2012).

Controlled Projects: This provision would raise the cost threshold for certain school buildings to be subject to the referendum process. This provision could make it easier to build certain projects. However, if a referendum is not sought, the debt service levy for the project would be subject to property tax caps. Additional levies within the caps would increase exposure to circuit breaker losses for all taxing units that intersect with the school corporation.

Under current law, a capital project is considered a controlled project if it will cost the taxing unit more than the lesser of (1) $2 M or (2) an amount equal to 1% of the unit's total gross AV (if that amount is at least $1 M).

A controlled project for a school building for kindergarten through Grade 8 is subject to a referendum if the cost is more than $10 M. A controlled project for a school building for Grade 9 through Grade 12 is subject to a referendum if the cost is more than $20 M. Other controlled projects with a cost that exceeds the lesser of (1) $12 M or (2) 1% of AV (if that amount is at least $1 M) are also subject to a referendum. In addition, a taxing unit may specify that the public question process applies even if the project is not a controlled project.

Under the bill, a project for a school building that will be used for both kindergarten through eighth grade and grades nine through twelve would be subject to referendum only if the cost would exceed $15 M (a $3 M increase in the threshold.)

Emergency Fire Loans: This provision could reduce the amount of emergency fire loans and the property tax levies to repay them in cases where the loans are frequently sought.

Under current law, a township board may authorize the trustee to borrow money to meet unfunded needs for fire and emergency services. Emergency fire loans are repaid from proceeds of a special levy imposed in the following year. This bill would limit emergency borrowing to three years within any five year period.

TIF Neutralization: Property taxes charged on new AV in a TIF allocation area are allocated to the local redevelopment commission. Allocated AV is excluded from the tax base (base AV) that is used to calculate property tax rates. In some cases, this provision could result in higher base AV for taxing units and lower allocated AV for TIFs. The higher base AV would result in lower tax rates and potentially lower circuit breaker losses. Both the lower TIF AV and the lower tax rates would result in lower TIF proceeds. The extent of these changes is currently indeterminable and would depend on changes in AV going forward.

Under current law, the base AV in an allocation area is adjusted to reflect AV changes from general reassessments and annual adjustments. The adjustments may not include the effect of property tax abatements and they may not produce less TIF proceeds than if the general reassessment or annual adjustment had not occurred.

Under this provision, there would be no exclusion of the effect of abatements and there would be no floor for TIF proceeds. Also under the bill, the base value could be reduced only to the extent that AV in the TIF area has been reduced because of a general reassessment or annual adjustment.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: County auditors; Libraries; County and municipal fiscal bodies; Local civil taxing units and school corporations.

Information Sources:

Fiscal Analyst: Bob Sigalow, 317-232-9859.